

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Minutes of the February 21, 2007 Committee Meeting

(Agenda Item 2)

Jesse Unruh Building
915 Capitol Mall, Room 587
Sacramento, CA 95814

OPEN SESSION

The meeting of the California Debt Limit Allocation Committee (Committee) was called to order at 1:35 p.m. by Bill Lockyer, State Treasurer.

Call to Order and Roll Call (Agenda Item 1)

Bill Lockyer, State Treasurer, Arnold Schwarzenegger, Governor, represented by Anne Sheehan, Department of Finance; and John Chiang, State Controller, represented by Cindy Aronberg, Deputy Controller, were present resulting in a quorum.

Advisory members Theresa Parker, Executive Director of the California Housing Finance Agency, and Lynn Jacobs, Director of the Department of Housing and Community Development, represented by Judy Nevis, Chief Deputy Director, were also present.

Approval of the Minutes of the December 13, 2006 Meeting (Agenda Item 2) (Action Item)

Anne Sheehan moved approval of the minutes from the December 13, 2006 meeting. Cindy Aronberg seconded the motion. The motion passed unanimously.

Executive Director's Report (Agenda Item 3) (Informational Item)

Ms. Kelly presented the proposed CDLAC meeting schedule for 2007 and discussed the Compliance Monitoring implementation schedule.

Ms. Kelly stated that CDLAC staff would begin to enforce the existing CDLAC Procedures Section 17,I,G which states that the Applicant/Issuer shall submit verification to CDLAC annually that the project meets the terms and conditions of the Committee Resolution (public benefits) as delineated in the bond regulatory agreement. Ms. Kelly also stated that CDLAC has a staff person responsible for reminding Issuers of this requirement. CDLAC, during this first year of enforcement, will be working with Issuers to assist them in meeting this requirement. However, by 2008, CDLAC's goal is to have the Compliance monitoring policy firmly in place.

Determination and Adoption of the 2007 State Ceiling on Qualified Private Activity Bonds Agenda Item 4) (Action Item)

Misti Armstrong stated that staff recommended the adoption of the 2007 State Ceiling for qualified private activity bonds. Section 146 of the Internal Revenue Code limits the amount of qualified (tax-exempt)

private activity bonds that may be issued during a calendar year (annual state ceiling). Pursuant to Revenue Procedure 2005-70 published by the Internal Revenue Service, the volume limit on qualified private activity bonds adjusted for inflation for calendar year 2007 is \$85 multiplied by the states population. On December 22, 2006 the U.S. Census Bureau issued press release #CB06-187 reporting California's estimated population as 36,457,549. This is a .9% increase from the population estimate of 36,132,147 used to set the 2006 State Ceiling. Inflation and the population results provide the basis for the new bond volume cap of \$3,098,891,665. This is an estimated increase \$208.3 million increase over the 2006 State Ceiling.

Staff recommended the adoption of Resolution 07-1 establishing the 2007 State Ceiling for qualified private activity bonds at \$3,098,891,665.

Anne Sheehan moved approval of staff's recommendation. Cindy Aronberg seconded the motion. The motion passed unanimously.

Consideration and Adoption of the Apportionment of the 2007 State Ceiling among the State Ceiling Pools (Agenda Item 5) (Action Item)

Ms. Kelly stated that in accordance with CDLAC Procedures Section 4.II. the Committee is to establish the amounts for each of the State Ceiling Pools for the 2007 program year. In making recommendations for 2007 pool amounts, staff surveyed key issuers to determine their estimated demand and recommended the amount for each program pool. The following list estimates demand and recommended the amount for each program pool.

Qualified Residential Rental Pool

Staff recommended setting the Qualified Residential Rental Pool for multifamily projects at \$1,740,891,665. Although staff has spoken with the major issuers for Rental Projects, it is difficult to determine the pipeline of demand for multi-family projects. Large and repeat program applicants anticipate demand on par with last year. Staff recommended setting the General Rental Pool at \$1,305,891,665 in 2007. Based on last years activity, staff recommended \$300 million for the Mixed Income Rental Pool, and \$135 million for the Rural Rental Pool.

At the end of the year if the Rental Pool bond authority remains unallocated, or the Committee elects to transfer additional allocation to the Rental Pool, the Committee may then consider Redevelopment Agency Housing Set-Aside Program applications. Therefore, no allocation is recommended for the Redevelopment Housing Set-Aside Pool at this time.

Single Family Program Pool

Staff recommended setting the Single Family Program Pool at \$640 million. The major addition to this Pool is the CALVet single family housing program. HR 6111, approved on December 8, 2006, allows California Veterans for calendar year 2007 and prior to January 1, 2008 expanded program eligibility. During this one year window California Veterans are not required to be first time homebuyers and program eligibility is expanded to include all California Veterans with war time service. Prior to this eligibility expansion, California Veteran eligibility was limited to Veterans that had war time service prior to 1977. Due to the increased Veteran program demand staff recommends \$140 million in allocation for the CALVet single family program.

To accommodate the new Veteran's allocation, staff recommended the following allocation distribution for the remainder of the Single Family Program Pool. CalHFA \$310 million. The Locals Single Family Pool

of \$140 million and a Single Family Pool bonus Allocation of \$50 million. The Bonus Pool will be allocated by the Committee based on Single Family program demand.

The Extra Credit Teacher Program (ECTP) will not receive a 2007 allocation because that program has \$96,807,305 remaining from 2005 allocation and \$110 million remaining from 2006 allocation for a total allocation available for the Extra Credit Teachers Program of \$206,807,305. CalHFA, the ECTP program administrator, will continue to actively market that program with the existing allocation.

CIDFAC and the California I-Bank indicate that for 2007 IDB demand totals approximately \$100 million due to the change in tax law increasing the capital expenditure limit from \$10 million to \$20 million. This estimated demand amount includes both the Small Business Program (\$8 million) and the core IDB program (\$60 million). Therefore, staff recommended \$68 million in allocation for the IDB pool.

CPCFA staff and the financial advisors working on Exempt Facility projects indicate that they expect high usage of bond authority in 2007. The 2007 pipeline for First Tier projects is \$500 million and Non-First Tier projects are approximately \$200 million. Staff anticipates that Exempt Facility demand for allocation will be greater than anticipated allocation. Therefore, staff recommended \$440 million in bond authority for the Exempt Facility Pool and if usage of allocation is less than anticipated in other program areas, Exempt Facility projects may receive allocation later in the year.

Staff is expecting the return of All Student Loan and Educational Financing Services, Inc. for allocation from the Student Loan Program Pool this year. This pool is competitive and it is anticipated that demand will exceed allocation. Staff recommended \$210,000,000 in the Student Loan Program Pool.

Paula Connors, Executive Director of the California Enterprise Development Authority (CEDA), confirmed the increase in IDB usage for 2007 and stated that CEDA anticipates more demand than available cap and that they may return later in the year to request additional IDB allocation.

Anne Sheehan moved approval of staff's recommendation. Cindy Aronberg seconded the motion. The motion passed unanimously.

Consideration of an Application and Award of Allocation for a Small Business Program under the Small-Issue Industrial Development Bond Project Pool (Agenda Item 6) (Action Item)

Richard Fischer stated that the IDB Small Business Program is a local government economic development tool used to create jobs making tax-exempt bond financing available to small businesses that generally would not have access to such financing. Beginning January 1, 2007, the Federal tax law increased the capital expenditure limit for IDB Small Businesses from \$10 million to \$20 million. Staff anticipates this change will increase the demand for tax-exempt IDB bond financing.

The minimum requirements for the SBP include:

- 1.) The borrower must meet the definition of a small business and propose a project that is an eligible use of bond proceeds.
- 2.) The maximum amount of tax-exempt financing available under the program is \$4 million.
- 3.) The borrower must establish that the project will result in job creation and or job retention.
- 4.) All construction projects are subject to prevailing wage.
- 5.) All discretionary permits must be in place prior to receiving an award of allocation.

Staff recommended that the Committee approve \$8,000,000 in tax-exempt bond authority for the IDB Small Business Program for allocation to the California Industrial Development Financing Advisory Commission and California Infrastructure and Economic Development Bank.

Anne Sheehan moved approval of staff's recommendation. Cindy Aronberg seconded the motion. The motion passed unanimously.

Consideration of a request to Transfer Unused Bond Proceeds from Bayview Apartments to All Hallows Apartments (Agenda Item 7) (Action Item)

Approve the transfer of unused tax-exempt private activity bond proceeds issued by the California Statewide Community Development Authority (CSCDA) for the Bayview Apartments Project (Application 06-179) to the All Hallows Apartments Project (Application 06-178). On December 13, 2006, the California Debt Limit Allocation Committee adopted Resolution No.06-169 awarding \$3,000,000 of the 2006 State Ceiling of Qualified Private Activity Bonds to the Bayview Apartments Project. On December 27, 2006, CSCDA issued bonds for the Bayview Apartments Project included in the issuance was the following projects; All Hallows, Bayview, LaSalle, and Shoreview Apartments. The bonds were issued as a pooled issuance in the aggregate amount of \$82,350,000.

CSCDA is requesting a transfer of all unused bond proceeds in the amount of \$3,000,000 for the Bayview Apartments Project (Application 06-179) to the All Hallows Apartments Project (Application 06-178). According to the CDLAC resolution, bond proceeds can only be transferred to another project with the same issuer. CSCDA is the issuer for the Bayview Apartments Project and the All Hallows Apartments Project.

According to a legal opinion from Thomas A. Downey of Jones Hall, Bond Counsel for the transaction, the bond proceeds for Bayview Apartments have not been expended therefore tax law does not prevent a revised expenditure of bond proceeds. The final loan underwriting by Merrill Lynch resulted in an increase in the loan underwriting principal amount for the All Hallows Apartments of approximately \$3,000,000 and a decrease in the loan underwriting principal amount for the Bayview Apartments of approximately \$3,000,000.

Based on Bond Counsel's opinion and concurrence by the Attorney General's Office Counsel to approve the transfer of unused bond proceeds from the Bayview Apartments Project to the All Hallows Apartments Project, staff recommends approval.

Anne Sheehan questioned whether this would be the only request for transfer of proceeds for this project. Mike LaPierre, California Statewide Communities Development Authority, confirmed that the project was part of a pooled issuance and that there would be no further requests.

Anne Sheehan moved approval of staff's recommendation. Treasurer Lockyer seconded the motion. Cindy Aronberg abstained. **The Controller's Office abstained based on the fact that the background materials were not received in sufficient time to complete the legal review.** The motion passed 2-0.

Public Comment (Agenda Item 8)

There was no public comment.

Adjournment (Agenda Item 9)

The meeting adjourned at 2:16 pm.

